

# Foreign Agricultural Service GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 6/13/2003 GAIN Report #AS3018

# Australia

Wine

**Competition Annual** 

2003

Approved by:

Andrew C. Burst U.S. Embassy Prepared by: Mike Darby

### **Report Highlights:**

Total grape production for wine (crush) in 2003/04 is forecast at a record 1.79 million metric tons, up from the drought-reduced harvest of the previous year. Australia's wine grape production is now roughly double the level of the mid 1990's. Australia's wine exports rose to over A\$2.3 billion in 2002 and have now become the fifth largest valued agricultural export commodity. In 2003/04, wine exports are forecast at 6.13 million hectoliters, 18 percent higher than the 5.21 MHL shipped the previous year. Australia's major wine export markets are the United Kingdom and the United States, which together take over two-thirds of all shipments by volume.

| SECTION I: SITUATION AND OUTLOOK                 |
|--|
| SECTION II: STATISTICAL TABLES                   |
| Wine, Production, Supply & Demand                |
| Projections for Wine Grape Production            |
| Domestic Wine Sales                              |
| Imports  |
| Exports  |
| Statistical Overview                             |
| SECTION III: SUPPLY & DEMAND, POLICY & MARKETING |
| Production                                       |
| Consumption                                      |
| Stocks   |
| Гrade  |
| Marketing  |

GAIN Report #AS3018 Page 1 of 15

#### SECTION I: SITUATION AND OUTLOOK

Total grape production for wine (crush) in 2003/04 is forecast at a record 1.79 million metric tons, up from the drought-reduced 2002/03 harvest. Australia's wine grape production is now roughly double the level of 1995/96. Over this period, red wine grape production has quadrupled, while white production has risen by only about 10 percent. Driven by relative shortages and stronger prices, production growth of white wine grape varieties is expected to rise relative to red over the medium term.

Wine grape bearing area is projected to reach 159,000 hectares in 2003/04, up from 152,000 hectares in 2002/03 and sharply higher than the 63,000 bearing hectares in 1995/96. The rapid growth of wine grape plantings that occurred in the mid to late 1990's has now dropped significantly. In 1998, for example, net plantings peaked at 13,800 hectares, falling to about 3,200 net hectares in 2000. These new plantings were mostly dominated by red varieties, notably Shiraz.

New bearing area has resulted in a surge in production of red grape varieties, which has led to overproduction and downward pressure on prices. Conversely, the little or no growth in white wine grape area and production has led to tight supplies and more favorable prices. As a result, a higher percentage of new plantings consist of white varieties, particularly Chardonnay. Of note, white varietal plantings are expected to outstrip red in 2003, the first time this has occurred since 1995. Australia's Bureau of Agriculture and Resource Economics (ABARE) forecasts that Australia's wine grape bearing area will reach 180,000 hectares in 2007/08, with strong demand expected to create shortages of wine grapes in the medium term.

Increased production, lower prices and globalization have created pressure for industry restructuring and consolidation. According the Winemakers Federation of Australia, the larger corporate winemakers have sought critical mass by purchasing smaller brands. The domestic market has experienced a consolidation of distribution channels as supermarkets increase their dominance and seek wider coverage. Australia's Fosters (Berringer Blass), which is considered to be one of the three largest wine groups in the world, has increased their wine holdings in Australia as well as overseas. Constellation Wines, one of the other "big three", recently bought BRL Hardy, Australia's largest wine producer by volume.

Australia's wine exports rose to over A\$2.3 billion in 2002 and have now become the fifth largest valued agricultural export commodity, following wheat, beef, wool and dairy products. In marketing year 2003/04 (July-June), wine exports are forecast at 6.13 million hectoliters (MHL), 18 percent higher than the 5.21 MHL shipped in 2002/03. Competition has been steadily rising in the domestic and export markets, which has brought on heavy price discounting. In addition, recent increases in the value of the Australian currency, particularly against the U.S. dollar and British pound, have reduced returns from wine exports.

Australia's primary wine export markets are the United Kingdom and the United States, which together take over two-thirds of all shipments by volume. Over the medium-term, the proportion of total exports to the United Kingdom are expected to fall, while the share of shipments to North America and Scandinavia are expected to rise. A continuation of global mergers and acquisitions involving Australian wine companies is expected to increase the amount of bulk wine sourced from Australia and other markets.

GAIN Report #AS3018 Page 2 of 15

Although still small, imports of white wine have grown at a relatively high rate, reflecting the tightness in supplies of white wine grapes and a relative shortage of domestic white wines. Conversely, an abundance of red wine in Australia has resulted in declining imports of red wine.

Growth of domestic wine consumption has picked-up considerably of late, with domestic wine sales now growing at a 8-9 percent annual rate. Domestic wine consumption is characterized by high consumption growth of still wines and consumption declines for fortified and sparkling wines. Given faster growth in exports, however, overseas shipments have now exceeded domestic sales since 2001/02.

GAIN Report #AS3018 Page 3 of 15

# **SECTION II: STATISTICAL TABLES**

# Wine, Production, Supply & Demand

| PSD Table              |           |          |          |          |             |          |
|------------------------|-----------|----------|----------|----------|-------------|----------|
| Country                | Australia |          |          |          |             |          |
| Commodity              | Wine      |          |          |          | (1000 MT)(1 | 000 HL)  |
|                        | 2001      | Revised  | 2002     | Estimate | 2003        | Forecast |
|                        | USDA      | Post     | USDA     | Post     | USDA        | Post     |
|                        | Official  | Estimate | Official | Estimate | Official    | Estimate |
|                        | [Old]     | [New]    | [Old]    | [New]    | [Old]       | [New]    |
| Market Year Begin      |           | 07/2001  |          | 07/2002  |             | 07/2003  |
| TOTAL Grape Crush      | 1520      | 1606     | 1550     | 1420     | 0           | 1793     |
| Begin Stock (Ctrl App) | 0         | 0        | 0        | 0        | 0           | 0        |
| Begin Stock (Other)    | 0         | 0        | 0        | 0        | 0           | 0        |
| TOTAL Beginning Stocks | 6688      | 6688     | 9417     | 9907     | 11555       | 10483    |
| Prod. from Wine Grapes | 9779      | 10402    | 9992     | 9226     | 0           | 11822    |
| Prod. from Tabl Grapes | 861       | 840      | 700      | 714      | 0           | 728      |
| TOTAL PRODUCTION       | 10640     | 11242    | 10692    | 9940     | 0           | 12550    |
| Intra-EU Imports       | 0         | 0        | 0        | 0        | 0           | 0        |
| Other Imports          | 146       | 145      | 146      | 146      | 0           | 146      |
| TOTAL Imports          | 146       | 145      | 146      | 146      | 0           | 146      |
| TOTAL SUPPLY           | 17474     | 18075    | 20255    | 19993    | 11555       | 23179    |
| Intra-EU Exports       | 0         | 0        | 0        | 0        | 0           | 0        |
| Other Exports          | 3957      | 4170     | 4400     | 5210     | 0           | 6130     |
| TOTAL Exports          | 3957      | 4170     | 4400     | 5210     | 0           | 6130     |
| Dom.Consump(Cntrl App) | 0         | 0        | 0        | 0        | 0           | 0        |
| Dom.Consump(Other)     | 4100      | 3998     | 4300     | 4300     | 0           | 4700     |
| TOTAL Dom.Consumption  | 4100      | 3998     | 4300     | 4300     | 0           | 4700     |
| End Stocks (Cntrl App) | 0         | 0        | 0        | 0        | 0           | 0        |
| End Stocks (Other)     | 9417      | 9907     | 11555    | 10483    | 0           | 12349    |
| TOTAL Ending Stocks    | 9417      | 9907     | 11555    | 10483    | 0           | 12349    |
| TOTAL DISTRIBUTION     | 17474     | 18075    | 20255    | 19993    | 0           | 23179    |

GAIN Report #AS3018 Page 4 of 15

**Projections for Wine Grape Production** 

| PROJECTED WINE GRAPE PRODUCTION, BY CATEGORY (METRIC TONS) |                  |           |                      |           |  |  |  |  |  |  |
|--|------------------|-----------|----------------------|-----------|--|--|--|--|--|--|
|  | Estimated intake |           | Projected production |           |  |  |  |  |  |  |
|  | 2001/02          | 2002/03   | 2003/04              | 2004/05   |  |  |  |  |  |  |
| White Wine Grapes  |                  |           |                      |           |  |  |  |  |  |  |
| Premium (a)  | 531,000          | 525,000   | 564,000              | 590,000   |  |  |  |  |  |  |
| Non-premium (b)  | 17,000           | 19,000    | 21,000               | 21,000    |  |  |  |  |  |  |
| TOTAL  | 548,000          | 544,000   | 585,000              | 611,000   |  |  |  |  |  |  |
| Red Wine Grapes  |                  |           |                      |           |  |  |  |  |  |  |
| Premium (c)  | 845,000          | 833,000   | 927,000              | 947,000   |  |  |  |  |  |  |
| Non-premium (d)  | 37,000           | 39,000    | 47,000               | 50,000    |  |  |  |  |  |  |
| TOTAL  | 882,000          | 872,000   | 974,000              | 997,000   |  |  |  |  |  |  |
| Multipurpose grapes for wine making (e)                    | 120,000          | 102,000   | 104,000              | 105,000   |  |  |  |  |  |  |
| Other  | 56,000           | 43,000    | 52,000               | 57,000    |  |  |  |  |  |  |
| Total grapes for wine making                               | 1,606,000        | 1,562,000 | 1,715,000            | 1,771,000 |  |  |  |  |  |  |

Source: ABARE Australian Wine Grape Production and Winery Intake Projections to 2004/05. Jul/Jun Year. (a) Chardonnay, Chenin blanc, Colombard, Muscadelle, Riesling, Sauvignon Blanc, Semillon, Traminer and Verdelho. (b) Crouchen, Doradillo, Palomino and Trebbiano. (c) Cabernet Franc, Cabernet Sauvignon, Merlot, Malbec, Pinot Noir, Ruby Cabernet and Shiraz. (d) Grenache and Mataro. (e) Muscat Gordo Blanco and Sultana.

GAIN Report #AS3018 Page 5 of 15

## **Domestic Wine Sales**

| Domestic Whie Sales                         | TIC WINE SAI | I FS & IMPO | DTS RV TVD | T.        |           |  |  |  |  |  |
|---|--------------|-------------|------------|-----------|-----------|--|--|--|--|--|
| DOMESTIC WINE SALES & IMPORTS, BY TYPE (HL) |              |             |            |           |           |  |  |  |  |  |
|   | 1997/98      | 1998/99     | 1999/00    | 2000/01   | 2001/02   |  |  |  |  |  |
| DOMESTIC SALES OF AUSTRA                    | LIAN WINE    |             |            |           |           |  |  |  |  |  |
| Table wine                                  | 2,769,000    | 2,874,000   | 3,071,000  | 3,246,000 | 3,296,000 |  |  |  |  |  |
| Dry red and rose                            | 874,000      | 991,000     | 1,141,000  | 1,256,000 | 1,301,000 |  |  |  |  |  |
| Dry white and sweet                         | 1,895,000    | 1,883,000   | 1,930,000  | 1,990,000 | 1,995,000 |  |  |  |  |  |
| Sparkling wine                              | 311,000      | 326,000     | 325,000    | 307,000   | 294,000   |  |  |  |  |  |
| Bottle-fermented                            | 223,000      | 203,000     | 182,000    | 167,000   | 174,000   |  |  |  |  |  |
| Bulk  | 88,000       | 123,000     | 144,000    | 140,000   | 120,000   |  |  |  |  |  |
| Carbonated wine                             | 32,000       | 14,000      | 35,000     | 33,000    | 31,000    |  |  |  |  |  |
| Total unfortified wine                      | 3,111,000    | 3,215,000   | 3,432,000  | 3,585,000 | 3,621,000 |  |  |  |  |  |
| Fortified wine                              | 246,000      | 239,000     | 230,000    | 222,000   | 204,000   |  |  |  |  |  |
| Other wine, inc. Vermouth                   | 31,000       | 30,000      | 31,000     | 34,000    | 28,000    |  |  |  |  |  |
| TOTAL DOMESTIC SALES                        | 3,388,000    | 3,483,000   | 3,693,000  | 3,841,000 | 3,853,000 |  |  |  |  |  |
| WINE IMPORTS                                |              |             |            |           |           |  |  |  |  |  |
| Table wine                                  | 214,000      | 201,000     | 141,000    | 81,000    | 92,000    |  |  |  |  |  |
| Sparkling wine                              | 30,000       | 29,000      | 38,000     | 29,000    | 33,000    |  |  |  |  |  |
| Fortified wine                              | 1,000        | 1,000       | 7,000      | 1,000     | 2,000     |  |  |  |  |  |
| Other                                       | 10,000       | 11,000      | 10,000     | 16,000    | 18,000    |  |  |  |  |  |
| TOTAL IMPORTS                               | 256,000      | 243,000     | 196,000    | 128,000   | 145,000   |  |  |  |  |  |
| TOTAL WINE SALES                            | 3,644,000    | 3,726,000   | 3,889,000  | 3,969,000 | 3,998,000 |  |  |  |  |  |

Source: ABARE. July/June Year

GAIN Report #AS3018 Page 6 of 15

**Imports** 

|                | IMI                                   |          | OUNTRY OF<br>&A\$'000) | ORIGIN |            |             |  |
|----------------|---------------------------------------|----------|------------------------|--------|------------|-------------|--|
|                | 2000                                  | )        | 200                    | )1     | 2002       |             |  |
|                | Volume                                | Value    | Volume                 | Value  | Volume     | Value       |  |
| Champagne      |                                       |          |                        |        |            |             |  |
| France         | 4,189                                 | 13,611   | 10,530                 | 25,730 | 14,323     | 36,567      |  |
| Italy          | 725                                   | 378      | 9,902                  | 8,762  | 10,324     | 8,357       |  |
| New Zealand    | 870                                   | 1,037    | 2,452                  | 2,537  | 5,705      | 6,534       |  |
| Spain          | 876                                   | 477      | 61                     | 62     | 1,590      | 315         |  |
| United States  | 11                                    | 7        | 42                     | 53     | 6          | 4           |  |
| Chile          | 0                                     | 0        | 712                    | 335    | 653        | 843         |  |
| Other          | 93                                    | 52       | 99                     | 62     | 237        | 166         |  |
| Total          | 6,764                                 | 15,562   | 23,798                 | 37,541 | 32,838     | 52,786      |  |
|                |                                       |          |                        |        |            |             |  |
|                | 2000                                  | )        | 200                    |        | 200        | )2          |  |
|                | Volume                                | Value    | Volume                 | Value  | Volume     | Value       |  |
| Sparkling Wine | · · · · · · · · · · · · · · · · · · · | 1        |                        | 1      | •          |             |  |
| Italy          | 3,678                                 | 1,877    | 6,531                  | 1,997  | 2,814      | 1,126       |  |
| Spain          | 252                                   | 130      | 1,209                  | 616    | 754        | 438         |  |
| France         | 1,276                                 | 1,211    | 716                    | 579    | 534        | 1,030       |  |
| New Zealand    | 235                                   | 69       | 145                    | 171    | 225        | 406         |  |
| United States  | 13                                    | 11       | 21                     | 69     | 909        | 49          |  |
| Other          | 5,840                                 | 3,446    | 8,650                  | 3,300  | 372        | 205         |  |
| Total          | 6,088                                 | 3,526    | 8,816                  | 3,540  | 5,608      | 3,254       |  |
|                | 2000                                  | )        | 200                    | )1     | 200        | 12.         |  |
|                | Volume                                | Value    | Volume                 | Value  | Volume     | Value Value |  |
| Table Wine     | rounte                                | 7 Cittle | Vocamic                | , and  | , outilite | · citie     |  |
| New Zealand    | 10,584                                | 8,245    | 24,364                 | 22,328 | 35,906     | 33,806      |  |
| Italy          | 13,592                                | 4,280    | 30,135                 | 11,996 | 26,112     | 11,552      |  |
| France         | 7,153                                 | 4,482    | 14,343                 | 12,614 | 15,864     | 15,860      |  |
| Portugal       | 257                                   | 67       | 1,112                  | 434    | 3,981      | 1,526       |  |
| United Kingdom | 0                                     | 0        | 0                      | 0      | 3,869      | 1,315       |  |
| United States  | 253                                   | 209      | 1,567                  | 748    | 818        | 838         |  |
| Other          | 15,822                                | 10,494   | 39,048                 | 28,532 | 67,479     | 44,947      |  |
| Total          | 37,077                                | 19,532   | 86,205                 | 54,324 | 118,123    | 76,038      |  |

GAIN Report #AS3018 Page 7 of 15

|                      | 2000            |                       | 20      | 01                 | 2002      |             |  |
|----------------------|-----------------|-----------------------|---------|--------------------|-----------|-------------|--|
|                      | Volume          | Value                 | Volume  | Value              | Volume    | Value       |  |
| Fortified Wine (incl | Sherry, Port, M | <b>Auscat, Desser</b> | t Wine) |                    |           |             |  |
| Spain                | 224             | 193                   | 567     | 452                | 564       | 519         |  |
| Greece               | 0               | 0                     | 9       | 6                  | 106       | 12          |  |
| Portugal             | 43              | 87                    | 38      | 63                 | 56        | 114         |  |
| Cyprus               | 0               | 0                     | 4       | 3                  | 32        | 21          |  |
| United Kingdom       | 16              | 12                    | 26      | 28                 | 29        | 29          |  |
| United States        | 2               | 2                     | 0       | 3                  | 0         | 3           |  |
| Other                | 127             | 80                    | 175     | 115                | 22        | 49          |  |
| Total                | 412             | 374                   | 819     | 670                | 809       | 747         |  |
|                      |                 |                       |         |                    |           |             |  |
|                      | Volume          | Value                 | Volume  | <b>01</b><br>Value | Volume 20 | 02<br>Value |  |
| Vermouth             | voiume          | vaiue                 | voiume  | vaiue              | voiume    | vaiue       |  |
| New Zealand          | 4,957           | 2,544                 | 7,014   | 4,595              | 5,719     | 4,111       |  |
| Italy                | 3,867           | 1,385                 | 6,466   | 2,251              | 5,192     | 2,127       |  |
| France               | 488             | 244                   | 535     | 274                | 553       | 312         |  |
| Greece               | 281             | 57                    | 448     | 89                 | 455       | 91          |  |
| Germany              | 59              | 29                    | 73      | 59                 | 178       | 91          |  |
| United States        | 44              | 14                    | 0       | 0                  | 1 / 0     | 1           |  |
| Other                | 327             | 128                   | 55      | 15                 | 84        | 32          |  |
| Total                | 10,023          | 4,401                 | 14,591  | 7,283              | 12,182    | 6,765       |  |
|                      |                 |                       |         |                    |           |             |  |
|                      | 200             | 00                    | 20      | 01                 | 200       | 02          |  |
|                      | Volume          | Value                 | Volume  | Value              | Volume    | Value       |  |
| Other (incl Grape M  | lust)           |                       |         |                    |           |             |  |
| Italy                | 1,332           | 547                   | 1,895   | 770                | 1,929     | 674         |  |
| Greece               | 1,098           | 283                   | 1,423   | 379                | 874       | 253         |  |
| Portugal             | 1,589           | 655                   | 3,067   | 1,297              | 630       | 324         |  |
| New Zealand          | 708             | 431                   | 441     | 255                | 278       | 237         |  |
| France               | 1,115           | 1,084                 | 445     | 1,298              | 199       | 60          |  |
| United States        | 349             | 269                   | 18      | 14                 | 165       | 103         |  |
| Other                | 24,073          | 3,247                 | 2,541   | 1,096              | 2,510     | 908         |  |
| Total                | 28,932          | 5,969                 | 7,935   | 4,339              | 4,656     | 1,885       |  |

GAIN Report #AS3018 Page 8 of 15

|                           | 200     | 0       | 20      | 2001    |         | 02      |
|---------------------------|---------|---------|---------|---------|---------|---------|
|                           | Volume  | Value   | Volume  | Value   | Volume  | Value   |
| <b>Total Wine Imports</b> |         |         |         |         |         |         |
| New Zealand               | 34,473  | 27,208  | 34,413  | 29,886  | 47,833  | 45,094  |
| Italy                     | 51,913  | 23,606  | 54,933  | 25,785  | 46,371  | 23,837  |
| France                    | 31,808  | 48,930  | 26,617  | 40,562  | 31,491  | 53,872  |
| Spain                     | 24,789  | 4,182   | 4,054   | 1,998   | 5,070   | 2,847   |
| Portugal                  | 4,596   | 1,992   | 4,243   | 1,800   | 4,668   | 1,964   |
| United States             | 1,100   | 960     | 1,648   | 886     | 1,898   | 996     |
| Other                     | 52,514  | 34,705  | 50,661  | 36,666  | 84,715  | 57,961  |
| Total                     | 166,720 | 114,375 | 142,156 | 107,697 | 174,213 | 141,477 |

Source: Australian Bureau of Statistics. Calendar Year

**Exports** 

|                     |           |         | BY DESTINAT<br>. &A\$'000) | ΓΙΟΝ      |           |           |
|---------------------|-----------|---------|----------------------------|-----------|-----------|-----------|
|                     | 2000      | )       | 200                        | )1        | 200       | )2        |
|                     | Volume    | Value   | Volume                     | Value     | Volume    | Value     |
| White Wine          |           |         |                            |           |           |           |
| United Kingdom      | 763,295   | 293,936 | 900,708                    | 352,564   | 1,002,731 | 388,591   |
| United States       | 226,943   | 129,075 | 283,806                    | 164,863   | 391,209   | 218,689   |
| New Zealand         | 95,325    | 18,947  | 91,908                     | 21,162    | 100,930   | 23,296    |
| Canada              | 51,572    | 24,038  | 50,864                     | 26,529    | 64,439    | 34,354    |
| Germany             | 50,514    | 17,316  | 46,891                     | 13,545    | 46,891    | 15,698    |
| Other               | 214,481   | 87,123  | 245,504                    | 100,604   | 271,543   | 113,466   |
| Total               | 1,402,130 | 570,435 | 1,619,681                  | 679,267   | 1,877,743 | 794,094   |
|                     |           |         |                            |           |           |           |
|                     | 2000      |         | 200                        | )1        | 200       | )2        |
|                     | Volume    | Value   | Volume                     | Value     | Volume    | Value     |
| Red Wine (incl Rose | e)        |         |                            |           |           |           |
| United Kingdom      | 689,678   | 341,921 | 879,905                    | 440,700   | 1,106,896 | 495,319   |
| United States       | 365,934   | 283,490 | 475,856                    | 377,656   | 781,276   | 534,446   |
| New Zealand         | 91,723    | 42,942  | 121,231                    | 52,348    | 143,382   | 59,726    |
| Canada              | 89,153    | 61,010  | 108,810                    | 39,219    | 140,704   | 106,204   |
| Germany             | 74,127    | 36,100  | 84,290                     | 82,124    | 89,008    | 35,643    |
| Other               | 289,689   | 160,920 | 368,845                    | 199,677   | 444,865   | 234,981   |
| Total               | 1,600,304 | 926,383 | 2,038,937                  | 1,191,724 | 2,706,131 | 1,466,319 |

GAIN Report #AS3018 Page 9 of 15

|  | 2000                | 0        | 200        | 01     | 2002       |                |  |
|--|---------------------|----------|------------|--------|------------|----------------|--|
|  | Volume              | Value    | Volume     | Value  | Volume     | Value          |  |
| Champagne                              |                     |          |            |        |            |                |  |
| United Kingdom                         | 29,886              | 17,178   | 28,264     | 20,887 | 30,190     | 20,887         |  |
| New Zealand                            | 5,881               | 3,211    | 9,064      | 4,833  | 12,114     | 4,833          |  |
| Sweden                                 | 1,088               | 500      | 1,698      | 1,634  | 2,112      | 1,634          |  |
| Japan                                  | 929                 | 763      | 1,886      | 770    | 1,632      | 770            |  |
| United States                          | 4,191               | 2,865    | 1,950      | 1,734  | 1,950      | 1,734          |  |
| Other                                  | 6,390               | 3,583    | 6,056      | 3,867  | 6,145      | 4,225          |  |
| Total                                  | 48,365              | 28,100   | 48,918     | 33,725 | 54,143     | 34,083         |  |
|  |                     |          |            |        |            |                |  |
|  | 2000                | 0        | 200        | 01     | 200        | )2             |  |
|  | Volume              | Value    | Volume     | Value  | Volume     | Value          |  |
| Other Sparkling Wi                     | ne                  |          |            |        |            |                |  |
| United Kingdom                         | 6,602               | 3,548    | 7,033      | 3,665  | 8,324      | 4,359          |  |
| United States                          | 1,230               | 1,001    | 2,313      | 1,427  | 4,646      | 3,826          |  |
| New Zealand                            | 12,444              | 911      | 3,566      | 1,418  | 4,605      | 1,761          |  |
| Japan                                  | 2,079               | 972      | 2,380      | 1,108  | 2,715      | 1,424          |  |
| Canada                                 | 702                 | 435      | 2,557      | 970    | 2,202      | 1,495          |  |
| Other                                  | 4,550               | 4,584    | 2,839      | 2,136  | 4,100      | 2,450          |  |
| Total                                  | 27,607              | 11,451   | 20,688     | 10,724 | 26,592     | 15,315         |  |
|  | 200                 | <u> </u> | 204        | 0.4    | 200        | 2              |  |
|  | 2000                | Value    | <u>200</u> |        | Volume 200 |                |  |
| Fortified Wine (incl.                  | Volume Shown Bont M |          | Volume     | Value  | voiume     | Value          |  |
| Fortified Wine (incl<br>United Kingdom | 6,527               | 1,364    | 6,494      | 2,458  | 17,353     | 8,534          |  |
| United States                          | 2,853               | 2,627    | 3,230      | 3,458  | 4,896      | 5,404          |  |
| Canada                                 | 5,431               | 1,843    | 3,230      | 1,426  | 4,722      |                |  |
| New Zealand                            | 2,623               | 1,430    | 3,191      | 1,420  | 2,551      | 1,921<br>1,465 |  |
| Switzerland                            | 107                 | 1,430    | 50         | 75     | 526        | 1,403          |  |
| Other                                  | 3,534               | 1,499    | 3,383      | 2,009  | 3,699      | 2,558          |  |
| Total                                  | 21,075              | 8,926    | 20,225     | 10,890 | 33,747     | 20,051         |  |

GAIN Report #AS3018 Page 10 of 15

|                     | 2000      |           | 2001      |           | 2002      |             |
|---------------------|-----------|-----------|-----------|-----------|-----------|-------------|
|                     | Volume    | Value     | Volume    | Value     | Volume    | Value       |
| Vermouth            |           |           |           |           |           |             |
| New Zealand         | 656       | 333       | 892       | 445       | 1,088     | 622         |
| Malaysia            | 290       | 108       | 262       | 105       | 126       | 48          |
| Singapore           | 229       | 86        | 93        | 110       | 93        | 48          |
| United States       | 0         | 0         | 0         | 0         | 76        | 82          |
| Canada              | 0         | 0         | 0         | 0         | 28        | 28          |
| Other               | 190       | 100       | 38        | 57        | 30        | 9           |
| Total               | 1,365     | 627       | 1,285     | 717       | 1,441     | 837         |
|                     |           |           |           | 1         |           |             |
|                     | 2000      | 0         | 200       | 01        | 200       | )2          |
|                     | Volume    | Value     | Volume    | Value     | Volume    | Value       |
| Other (incl Grape M | Iust)     |           |           |           |           |             |
| United States       | 1,657     | 2,100     | 1,345     | 1,772     | 1,573     | 2,032       |
| Philippines         | 0         | 0         | 1         | 13        | 1,374     | 237         |
| New Zealand         | 1,715     | 1,397     | 7,565     | 1,571     | 1,274     | 816         |
| Japan               | 635       | 405       | 4,099     | 454       | 983       | 779         |
| Singapore           | 1,166     | 651       | 663       | 549       | 535       | 582         |
| Other               | 6,136     | 5,228     | 3,254     | 4,100     | 5,171     | 4,272       |
| Total               | 9,652     | 7,681     | 15,581    | 6,674     | 7,963     | 6,449       |
|                     | 2000      | <u> </u>  | 200       | )1        | 200       | 12          |
|                     | Volume    | Value     | Volume    | Value     | Volume    | Value Value |
| Total Wine Exports  | <u> </u>  | <u> </u>  | l         | •         | 1         |             |
| United Kingdom      | 1,497,670 | 658,610   | 1,822,893 | 820,750   | 2,165,784 | 915,784     |
| United States       | 602,809   | 421,159   | 768,500   | 550,910   | 1,185,169 | 766,171     |
| New Zealand         | 210,367   | 69,172    | 237,417   | 83,241    | 265,947   | 94,716      |
| Canada              | 147,988   | 88,080    | 166,732   | 111,522   | 213,054   | 144,715     |
| Germany             | 124,846   | 53,681    | 131,784   | 53,359    | 139,520   | 51,804      |
| Other               | 526,770   | 263,876   | 637,312   | 313,827   | 738,289   | 363,958     |
| Total               | 3,110,450 | 1,554,578 | 3,764,638 | 1,933,609 | 4,707,763 | 2,337,148   |

Source: World Trade Atlas. Calendar Year

GAIN Report #AS3018 Page 11 of 15

# **Statistical Overview**

| <b>AUSTRALIA:</b> | Wine Gra | pes and Wine | <b>Statistical</b> | Overview |
|-------------------|----------|--------------|--------------------|----------|
|-------------------|----------|--------------|--------------------|----------|

| Year        | Bearing<br>area | White production | Red production | Total production | Domestic wine sales (1) | Wine<br>exports |
|-------------|-----------------|------------------|----------------|------------------|-------------------------|-----------------|
|             | (THa)           | (TMT)            | (TMT)          | (TMT)            | (ML)                    | (ML)            |
|             |                 |                  |                |                  |                         |                 |
| 1995/96     | 63              | 588              | 282            | 870              | 328                     | 130             |
| 1996/97     | 71              | 523              | 260            | 783              | 346                     | 155             |
| 1997/98     | 79              | 601              | 350            | 951              | 364                     | 194             |
| 1998/99     | 95              | 666              | 435            | 1101             | 373                     | 216             |
| 1999/00     | 111             | 592              | 537            | 1129             | 389                     | 288             |
| 2000/01     | 131             | 627              | 795            | 1422             | 397                     | 340             |
| 2001/02     | 143             | 696              | 910            | 1606             | 400                     | 417             |
| 2002/03 (e) | 152             | 525              | 895            | 1420             | 430                     | 521             |
| 2003/04 (e) | 159             | 645              | 1147           | 1793             | 470                     | 613             |

<sup>(</sup>e) estimate

<sup>(1)</sup> includes imports

GAIN Report #AS3018 Page 12 of 15

## SECTION III: SUPPLY & DEMAND, POLICY & MARKETING

#### **Production**

Australia's wine grape production (grapes for crush) is forecast at 1,793 thousand metric tons (TMT) in 2003/04, up 26 percent from the drought-affected crop of the previous year. This production figure is in line with the Australian Bureau of Resource Economics (ABARE) latest forecast and would represent an all time record, surpassing the previous record of 1,606 TMT set in 2001/02. A record bearing area of 159,000 hectares, combined with an anticipated return to normal growing conditions (following one of the worst droughts in a hundred years), are the main factors driving this increase.

Wine grape production (crush) in 2002/03 is estimated at 1,420 TMT, down 12 percent on the previous year and the lowest level since 1999/2000, according to ABARE's historical data. Widespread drought conditions across much of the Australian continent together with greatly reduced irrigation water allocations combined to reduce production, despite a six percent increase in bearing area. The lack of moisture during the drought greatly reduced pest and disease outbreaks, which greatly improved quality.

Post has revised 2001/02 production upwards to 1,606 TMT. A nine percent increase in bearing area and favorable rainfall combined to increase production. Wine grape production did not surpass 1,000 TMT until 1998/99, and has grown quickly in the intervening years as new plantings have come on-line.

Varietal production in 2001/02 was dominated by red varieties, which accounted for 60 percent of total production. Of this, Shiraz was the most dominant variety, accounting for 38 percent of red wine grape production, followed by Cabernet Sauvignon at 30 percent and Merlot at 11 percent. White wine grape varieties accounted for 34 percent of total production in 2001/02, with Chardonnay and Semillon the two largest varieties accounting for 48 and 20 percent of white wine production, respectively.

Long term projections provided by ABARE have wine grape production increasing steadily, setting consecutive records out to 2007/08, when production is projected to reach 2,031 TMT. Projected increases are principally attributed to rising wine grape bearing area, which is projected to grow at around three percent per annum.

Despite slowing to more modest levels in recent times, growth in Australian wine grape production has been driven by large plantings in the 1990's. Toward the end of the 1990's, bearing area was increasing at around 20 percent per annum.

Wine grape yield in 2003/04 is forecast at 11.3 MT/ha, up on the drought affected 9.3 MT/ha recorded for the previous year year. This increase represents a return to a more representative long term average yield. ABARE has used an average yield of 11.3 MT/ha for its production projections out to 2007/08.

GAIN Report #AS3018 Page 13 of 15

## Consumption

Wine consumption is forecast by Post to increase nine percent to 4,700 THL in 2003/04, versus the 4,300 thousand hectoliters (THL) estimated by Post for the previous year. Such an increase is considered to be large, with historical data showing average increases of just under three percent per annum. High inventory levels, record production, changes in consumption behavior and falling prices are all contributing to generate the above average increase in domestic consumption.

Post has revised the 2001/02 wine consumption estimate downward slightly to 3,998 THL, in line with ABARE figures for "domestic availability." ABARE does not provide a forecast series for "domestic availability."

#### **Stocks**

Ballooning wine stocks have been of great concern to industry and government alike in recent years. According to Post estimates, Australia has the equivalent of an entire crop in stock. ABARE recently reported that the 2002/03 drought has provided some respite in the ballooning stocks situation. However, another anticipated record year in 2003/04 will again place upward pressure on inventory numbers.

Post estimates the 2002/03 closing inventory to increase six percent to 10,483 THL. Post forecasts closing inventories in 2003/04 at 12,349 THL, up 17 percent on the previous year. Official government inventory figures are currently unavailable.

#### **Trade**

**Exports:** Total wine exports are forecast to increase 18 percent to a record 6,130 THL in 2003/04. Anticipated record production, high stock levels and saturated domestic sales are expected to drive export growth. Exports in 2002/03 are estimated at 5,210 THL, up 25 percent on the previous year. Reduced production due to drought has had no noticeable impact on export volume.

According to Australian Bureau of Statistics (ABS) data, Australia's top five export markets (in order of size, on a volume basis) for CY 2002 were the United Kingdom, the United States, New Zealand, Canada and Germany. The United Kingdom accounted for 46 percent of export volume and 39 percent of value. The United States represented around 25 percent of total export volume but accounted for 33 percent in value. Approximately 71 percent of total exports were destined for the United States and the UK in CY 2002, whereas a decade earlier these markets accounted for only 47 percent of total exports.

Wine export volume to the UK is roughly equally divided by white and red wine. The volume of red wine exports to the United States is almost twice that of white. On a value basis, the United States and the UK now rank about equally as Australia's largest wine market. On a volume basis, exports to the UK are almost double shipments to the United States.

ABARE projections have wine exports increasing by a total of 75 percent over the next five years, reaching 9,210 THL in 2007/08. Expectations are that the greatest growth in exports over the medium term will come in the United States, Canada and Scandinavia.

GAIN Report #AS3018 Page 14 of 15

Previous increases in wine exports were assisted by a very favorable exchange rate for the Australian currency. In more recent times, however, a rapidly appreciating Australian dollar, particularly versus the U.S. dollar, has reduced the local currency proceeds from Australian exports, and also returns to growers. Since reaching a low of less than US\$0.50 in late 2001, the Australian dollar is now valued at about US\$0.65.

**Imports:** Total imports are forecast by Post to remain unchanged in 2003/04 at 146 THL. Despite small fluctuations on a calendar year basis, Post anticipates imports to remain virtually unchanged at these relatively low levels. In CY 2002, New Zealand, Italy, France, Spain and Portugal made up the top five supplying countries, according to official ABS data. The United States accounted for less than one percent of imports during CY 2002. The weakening of the U.S. dollar relative to the Australian dollar could provide new opportunities for U.S. wine in Australia.

**Free Trade Agreement:** In November 2002, Australia and the United States announced the intention to negotiate a bilateral free trade agreement. Australian Government officials have announced that gaining increased access to the U.S. market for agricultural products will be a priority in these negotiations. Currently, Australia's wine exports to the United States are subject to a relatively small tariff.

**WTO Negotiations:** The Australian wine industry is regarded as a fast growing industry. Exports are projected to increase by 75 percent over the next five years. ABARE reports that for this projection to be realized, improved access to new and existing markets will be required. Currently, tariffs on wine imported by the EU and North America are relatively low in comparison to other potential growth markets in Asia and South America. Market access regarding both tariff and non tariff barriers has been recently highlighted by ABARE as a focus for industry and government in this and future World Trade Organization trade rounds.

**EC-Australia Wine Agreement**: In November 2002, Australian and European Commission officials met in regards to the EC/Australia Wine Agreement, which was implemented in 1994. Reportedly, progress was made on a number of outstanding issues, including protection for geographical indications and traditional expressions, enological practices, dispute processes, and administrative matters relating to the operation of the Agreement. From the perspective of the Australian wine industry, the Agreement has been used to improve Australia's access to the European market, in return for the eventual phasing out of European geographic terms previously used to describe Australian wine products. Progress has been slowed by the adoption of new EU labeling regulations.

## **Policy**

The Australian Wine and Brandy Corporation (AWBC) is a statutory authority of the Australian government established under the Australian Wine and Brandy Corporation Act (1980). The AWBC's responsibilities include export regulation compliance, the promotion of Australian wine (domestically and internationally), maintaining the integrity of Australia's wine labels and wine making practices, defining the boundaries of Australia's wine areas, and addressing international market access issues on behalf of the industry. The AWBC is responsible to the Minister for Agriculture, Fisheries and Forestry Australia.

Three steps must be completed to export grape products in quantities greater than 100 liters. First, a potential wine exporter must receive a license from the AWBC (in June 2002, there were 898 licensed exporters). Wine destined for export must also be inspected to determine if is sound and merchantable, including sensory evaluation by AWBC's Wine Inspectors. Finally, the exporter must obtain a permit for each shipment of wine

GAIN Report #AS3018 Page 15 of 15

that exceeds 100 liters before the Australian Customs Service will allow the export to proceed.

The AWBC also includes a Geographical Indications Committee in order to make determinations of Geographical Indications for wine in relation to regions and localities in Australia. A Register of Protected Names officially records and gives legal recognition to the Geographical Indications, Traditional Expressions, names of grape varieties and other words or expressions of the Australian wine industry and agreement countries. The inclusion of the Geographical Indications of the Member States of the EU in the Register gives them full protection under Australian wine law.

The AWBC is primarily funded by a levy. The levy payers are comprised of the wine and brandy producers, who pay the Wine Grape Levy, and the wine and brandy exporters, who pay the Wine Export Charge. AWBC also receives funding from "user pay" promotional programs as well as regulatory charges. In the 2001/02 fiscal year (July-June), AWBC revenues totaled A\$13.2 million. Of these total revenues, A\$2.4 million was from the Wine Grape Levy, A\$1.9 million from the Wine Export Charge, A\$3.8 million from the industry for promotional programs and user-pay events, and an additional A\$5.1 million from regulatory services and other AWBC programs.

## **Marketing**

The Australian Wine Export Council (AWEC) is the marketing and export promotion arm of the AWBC. AWEC conducts marketing activities, in conjunction with Australian exporters, in major export markets in Europe, Asia, the United States and Canada. Major promotional activities include participation at trade fairs, consumer and trade tastings, media liaison and public relations, and the sponsoring of visits to Australia by key journalists and trade personnel. AWEC also works closely with Australia's federal export promotion agency – Austrade. AWEC has overseas offices in London, Frankfurt, Tokyo, New York and Toronto.

AWEC promotions in Europe focus on participation at trade shows and other events, and wine tastings. In the United States, activities include trade and journalist tours to Australia, tastings, and public relations and trade and consumer campaigns. In Canada, activities focus on participation at wine shows, tastings, and retail promotions. In Japan, promotional activities include participation at trade shows and wine tasting seminars.